

Message Text

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21

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 IO-14 AF-10 ARA-16 EA-11 NEA-11 INT-08 SCI-06

FEA-02 AID-20 EB-11 CIEP-02 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01

AEC-11 NIC-01 DRC-01 /266 W
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R 290832Z JAN 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 8346

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS UNN

C O N F I D E N T I A L BELGRADE 0428

PASS TREASURY

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, EFIN, ECON, YO

SUBJECT: ENERGY: FINANCE SECRETARY SMOLE ON WORLD FUEL AND
MATERIALS SITUATION, YUGOSLAV ECONOMIC PROSPECTS AND
RELATIONS WITH U.S.

SUMMARY. FINANCE SECRETARY SMOLE TOLD ECONOMIC-COMMERCIAL COUNSELOR
THAT HE ENVISIONS THREE-STAGE IMF-WORLD BANK-DIRECT FLOW OF FUNDS
APPROACH TOWARD RESOLVING PROBLEMS CAUSED LDC'S BY SPIRALING OIL
PRICES. HE FORESAW FURTHER CONCERTED MOVES BY PRODUCERS OF RAW
MATERIALS TO INCREASE THEIR EXPORT EARNINGS. HE WAS FAIRLY CON-
FIDENT YUGOSLAVIA COULD COMPENSATE FOR EXTRA FUEL IMPORT COSTS
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THIS YEAR, BUT FAVORS ACCELERATED DEVELOPMENT OF COUNTRY'S RAW

MATERIAL RESOURCES IN JOINT VENTURE WITH FOREIGN FIRMS. HE PRAISED PROGRESS OF US-YUGOSLAV ECONOMIC RELATIONS. END SUMMARY.

1. DURING FAREWELL CALL BY ECONOMIC-COMMERCIAL COUNSELOR, FINANCE SECRETARY SMOLE STATED THAT, BASED TN DISCUSSIONS AT ROME MONETARY MEETING, HE FAVORS THREE-STAGE APPROACH TOWARD RESOLVING SERIOUS PROBLEMS CAUSED LDC'S BY SPIRALING OIL PRICES. FIRST, IMF WOULD PROVIDE IMMEDIATE FACILITIES FOR MEDIUM TERM CREDITS TO HELP MEET 1974 BALANCE OF PAYMENTS DIFFICULTIES. SECOND, WORLD BANK WOULD PROVIDE LONG TERM CREDITS. THIRD, SCHEME FOR DIRECT FLOW OF FUNDS FROM OIL PRODUCERS TO LDC'S (PARTICULARLY LEAST DEVELOPED) SHOULD BE ORGANIZED. SCHEME WOULD ASSURE PRODUCERS FAIR INTEREST RATES AND ANTI-INFLATIONARY PROTECTION. SMOLE EXPRESSED VIEW ALL THREE STAGES WOULD BE BASED ON CREDITS, NOT GRANTS, BUT THAT FACILITIES FOR SUBSIDIZING LDC INTEREST PAYMENTS SHOULD BE CREATED. HE SAW THE NON-ALIGNED DEVELOPMENT AND SOLIDARITY FUNDS AS SOMETHING SEPARATE FROM THIS SCHEME.

2. SMOLE FORESAW INTENSIFICATION OF EFFORTS BY COUNTRIES PRODUCING COPPER, NICKEL, BAUXITE AND OTHER BASIC MATERIALS TO AGREE ON CONCERTED ACTION TO OBTAIN BETTER PRICES.

3. ASKED ABOUT IMPLICATIONS OF OIL PRICE SITUATION ON YUGOSLAVIA, SMOLE EXPRESSED DOUBT THAT OUTLAYS ON CRUDE IMPORTS WOULD REACH ONE BILLION DOLLARS, AS PREDICTED BY LOCAL PRESS. MOREOVER, HE WAS HOPEFUL THAT NEW YUGOSLAV CONSTRUCTION PROJECTS AGREED OR UNDER NEGOTIATION WITH IRAN, KUWAIT AND LIBYA WOULD PARTIALLY OFFSET EXTRA COSTS.

4. IN LIGHT OF STEEP RISE ENERGY COSTS, AND ECONOMIC UNCERTAINTIES IN WESTERN EUROPE IT IS TOO EARLY TO PREDICT THIRD STRAIGHT YEAR OF YUGOSLAV BALANCE OF PAYMENTS SURPLUS, SMOLE COMMENTED. THERE ARE GROUNDS FOR OPTIMISM, HOWEVER, PARTICULARLY THROUGH FURTHER GROWTH IN TOURISM, AIDED BY YUGOSLAV EFFORTS TO ASSURE TOURISTS AMPLE GASOLINE SUPPLIES. SMOLE EXPRESSED APPRECIATION FOR SPECIAL INITIATIVES WESTINGHOUSE HAS TAKEN TO PROMOTE TRAVEL TO YUGOSLAVIA.

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5. SMOLE SAID RECENT DEVELOPMENTS HAVE REINFORCED YUGOSLAV BELIEF IN NEED FOR JOINT VENTURES WITH WESTERN FIRMS TO DEVELOP COUNTRY'S RAW MATERIAL RESOURCES AND INDUSTRY, AND INCREASE TECHNICAL KNOWHOW. GOY IS "WORKING ON" PROPOSALS TO AMEND JOINT VENTURE LEGISLATION TO PERMIT FOREIGN PARTNERS, PARTICULARLY IN OIL AND BASIC CHEMICALS AREA, TO REPATRIATE PROFITS BASED ON IMPORT SUBSTITUTION CONCEPT, IN ADDITION TO EXISTING HARD CURRENCY EXPORT EARNINGS.

6. GOY WANTS JOINT VENTURES, AND COOPERATION WITH US FIRMS AND EX-IM BANK IN THIRD COUNTRIES AS WELL AS IN YUGOSLAVIA ITSELF, SMOLE STRESSED. BY AWARDED KRSKO CONTRACT TO WESTINGHOUSE, HE ADDED, YUGOSLAVS PROBABLY LOST OPPORTUNITY TO PARTICIPATE IN GERMAN CONTRACTS TO CONSTRUCT FOUR NUCLEAR POWER PLANTS IN USSR. HE WAS HOPEFUL AMERICAN AND YUGOSLAV FIRMS WOULD ORGANIZE SCHEMES OF SIMILAR SCOPE.

7. IN CONCLUSION, SMOLE EXPRESSED DEEP APPRECIATE FOR CONTINUING DEVELOPMENT OF US-YUGOSLAV ECONOMIC AND COMMERCIAL COOPERATION AS RESULT OF SHULTZ-DENT VISIT. JOHNSON

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